

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

**Application of Milwaukee Water Works, Milwaukee
County, Wisconsin, for Authority to Increase Water
Rates**

3720-WR-107

REBUTTAL TESTIMONY OF KATHLEEN BUTZLAFF

May 14, 2010

1 **Q. Please state your name.**

2 A. My name is Kathleen Butzlaff.

3 **Q. Did you previously provide direct testimony in this docket?**

4 A. Yes, I did.

5 **Q. What is the purpose of your rebuttal testimony?**

6 A. I would like to address the direct testimony of Milwaukee Water Works witness, Ms.
7 Carrie Lewis. Specifically, I will address the rate of return requested by Milwaukee
8 Water Works.

9 **Q. Please summarize Milwaukee Water Works proposal.**

10 A. Milwaukee Water Works requested a return on net investment rate base of 5.00 percent
11 for retail water sales and 6.50 percent for wholesale water sales.

12 **Q. Do you agree that the requested rate of return is reasonable?**

13 A. Yes, I do. The requested return on net investment rate base of 5.00 percent for retail
14 water sales and 6.50 percent for wholesale water sales produces a 5.21 percent return on
15 net investment rate base for the test year. Not only is the 5.21 composite return
16 reasonable, a 6.50 percent return applied to all water sales would be reasonable. A 6.50

1 percent rate of return on rate base would provide a 6.73 percent return on municipal
2 equity and adequate times interest coverage. The lower 5.00 percent rate of return would
3 provide a lower 5.07 percent return on municipal equity in order to mitigate rates to retail
4 customers, yet would still provide adequate cash flow to meet debt service.

5 **Q. What is the reasonableness of a 6.50 percent return based on?**

6 A. One of the basic guidelines used for determining municipal rates of return is the cost of
7 30-year municipal debt plus 2 percent. At the time I reviewed the utility's proposed rate
8 of return (November 2009), the Baird report that I used listed 30-year AAA G.O.
9 Municipal Bonds at 4.51 percent. A three-month average to smooth small fluctuations
10 was 4.56 percent. Adding 2 percent would yield 6.51 to 6.56 percent. Updating these
11 numbers to April 30, 2010, would yield 6.44 and 6.45 percent, respectively. In municipal
12 rate cases the rate of return is typically rounded up to the nearest quarter percent.
13 Therefore, the current benchmark still resides at 6.50 percent.

14 **Q. On pages D1.2 and D1.6 of her direct testimony, Carrie Lewis refers to a**
15 **benchmark rate of return of 7.4 percent. She further noted that this benchmark**
16 **was updated to 6.3 percent in March 2010. Why is this 7.4 percent benchmark**
17 **different than the 6.50 percent return you just described?**

18 A. The benchmarks Ms. Lewis refers to are used for the Simplified Rate Case Process, an
19 inflationary increase tool available to municipally owned water and sewer utilities. The
20 benchmark is determined according to Wis. Stat. § 193.196(3) and uses Federal Reserve
21 Statistical Release H.15 (519) as the source for municipal debt rates. The 7.4 percent was
22 set in March 2009 while the 6.3 percent was set in March 2010. Although rates from the
23 two sources are slightly different, they follow similar trends. The latest rates (adding 2

1 percent) as of April 30, 2010, are 6.44 percent per the Baird report and 6.37 per the
2 Federal Reserve Release. Both of these rates round up to 6.50 percent.

3 **Q. Does this complete your rebuttal testimony in this proceeding?**

4 A. Yes, it does.

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6 KAB:w:water\butzlk\rate case exhibits\Milwaukee 3720-WR-107 rebuttal testimony
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